

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7589

BILL NUMBER: SB 525

NOTE PREPARED: Jan 14, 2009

BILL AMENDED:

SUBJECT: Education Issues.

FIRST AUTHOR: Sen. Lubbers

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Procurement:* This bill provides that the Department of Administration may, in the department's discretion, require political subdivisions to purchase one or more services, supplies, or items of equipment exclusively under a state contract.

It also provides that if a State Board of Accounts examination report discloses that a school corporation has not complied with these requirements, the State Board of Accounts may fine the school corporation. The bill specifies that the amount of a fine imposed on a school corporation by the State Board of Accounts is equal to the following: (1) \$1,000 for the first failure to comply. (2) \$5,000 for the second failure to comply. (3) \$10,000 for each additional failure to comply. It provides that the State Board of Accounts may in its discretion reduce a fine imposed on a school corporation to the extent that the fine exceeds the savings that the school corporation could have realized if the school corporation had complied with the requirements.

The bill also provides that a contract entered into by a state agency may require the contractor to offer to political subdivisions the services, supplies, or transportation equipment (including buses) that are the subject of the contract under conditions specified in the contract. It specifies that if a political subdivision demonstrates that it can achieve a better price for the service, supply, or item of equipment through another purchasing cooperative, the political subdivision may purchase the service, supply, or item of equipment from that source.

The bill requires the Department of Administration to adopt rules to regulate purchases by political subdivisions. The bill provides that the Department of Administration may establish written policies for purchases by political subdivisions to ensure that political subdivisions secure the best available price and quality of an item purchased.

School Transfer of Funds: The bill provides that a school corporation may apply to the Office of Management and Budget (OMB) to transfer an amount from any fund of the school corporation to any other fund of the school corporation to increase the school corporation's ratio of student instructional expenditures to all other expenditures. It requires the OMB to consult with the State Board of Education (State Board) in determining whether to grant the request.

The bill also provides that if a transfer is approved: (1) the school corporation may not file a levy appeal for the school corporation's Transportation Fund with the Department of Local Government Finance in the year in which the transfer is made or in the following year (if the transfer is made from the school corporation's Transportation Fund); and (2) the school corporation may not increase its Capital Projects Fund rate in the following year (if the transfer is made from the school corporation's Capital Projects Fund).

The bill specifies that OMB may not approve a transfer unless the school corporation first adopts a resolution specifying that: (1) the transfer will not cause a shortage of money in the fund from which the transfer will be made; (2) the transferred funds are not necessary to carry out the purposes of the fund from which the transfer will be made; and (3) the school corporation will comply with the requirements concerning its Transportation Fund levy or Capital Projects Fund rate and does not reasonably expect to request any emergency loans during the year in which the transfer is made or in the following year for the fund from which the transfer will be made.

The bill specifies that the OMB may not approve such a transfer in excess of 50% of the amount that the school corporation can show it has saved through: (1) joint purchasing or shared service arrangements; or (2) other savings measures that have resulted in an increased ratio of student instructional expenditures to all other expenditures.

The bill provides that the report prepared by the OMB concerning school corporations' progress in improving the ratio of student instructional expenditures must also include information regarding costs to school corporations of employee health insurance.

Student Instructional Expenditures Ratio: The bill requires the Governor and Superintendent of Public Instruction, as well as the State Board under current law, to recognize publicly each school corporation and educational service center that has an improved ratio of student instructional expenditures. It specifies that the State Board shall determine different levels of improvement in the ratio of student instructional expenditures that are deserving of special recognition. The bill provides that the Superintendent of Public Instruction, as well as the State Board under current law, shall recognize and reward the school corporations that meet goals for increasing the school corporation's allocation of taxpayer resources directly to student instruction and learning. It requires the State Board to adopt rules to create rewards for school corporations that improve their ratios of student instructional expenditures to all other expenditures.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Procurement:* The impact would depend on what services, supplies, or items of equipment local political subdivisions are required to purchase exclusively under a state contract. The increase in cost for the Department of Administration would depend on if additional contracts to purchase items had to be let. The increase is probably minor. The bill also requires the State Board of Accounts during school audits has to check that schools have complied with the requirement. Depending on audit method employed, the bill could lengthen the time for each school audit. It is unknown how much additional audit time might be needed.

School Transfer of Funds: The Office of Management and Budget could allow schools to transfer money between school funds to increase the school's ratio of instructional expenditures to all other expenditures. The Office of Management and Budget could incur some additional expense for the approval of the transfers. The increase would probably be minor.

Student Instructional Expenditures Ratio: The bill requires the Governor and Superintendent of Public Instruction, as well as the State Board under current law, to recognize publicly each school corporation and educational service center that has an improved ratio of student instructional expenditure. The impact would depend on the rewards granted to schools and the number of schools that improved their ratios.

Explanation of State Revenues: *Procurement:* The bill provides that if a State Board of Account's audit finds that a school did not use the state contract as required by the Department of Administration, the State Board of Accounts shall fine the school corporation \$1,000 for the first occurrence, \$5,000 for the second occurrence, and \$10,000 for each additional occurrence. It is unknown how much revenue may be generated from these fines.

Explanation of Local Expenditures: *Procurement:* The bill should reduce local political subdivisions' expenditures on services, supplies, or items of equipment local political units are required to purchase exclusively under a state contract. The political subdivision is allowed to contract for the service, supplies, or items of equipment if the contract is less than the state contract. Local schools spend about \$211.9 M on purchase of services, \$25.8 M on supplies, and \$46.3 M on capital outlays from the school general fund for the 2007-08 school year. It is unknown what the savings might be.

School Transfer of Funds: The bill allows a school to transfer money between school funds with the approval of the state Office of Management and Budget. The transfer would be limited to 50% of the savings a school has due to joint purchasing or shared services arrangements or other saving measures that have resulted in an increase ratio of instructional expenditures to all other expenditures. If the transfer is made for the Transportation Fund, then they cannot apply for a levy appeal the following year. Also, if the transfer is from the school Capital Projects Fund, then the rate cannot increase the following year. The amount of the transfer would depend on savings by the school corporation and approval of the Office of Management and Budget.

Schools that pay more than state Department of Administration's contracts for goods or services would be subject to a fine. Fines would be due not later than 90 days after receipt of the letter from the Board of Accounts. If the fines are not paid, the amount of the fine can be withheld from the school's tuition support distribution.

Explanation of Local Revenues:

State Agencies Affected: Department of Administration; Department of Education; Office of Management and Budget.

Local Agencies Affected: All.

Information Sources: Department of Education databases.

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